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PRESS RELEASE
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At the invitation of the Secretary of War, we have been to Germany and Austria - have toured the British and American Zones - have inspected German and Austrian industrial establishments - and have observed the operation of American Military Government in the territory under its control.

It has been gratifying to us to become acquainted first hand with the men who are doing a difficult job under extraordinarily difficult and frustrating conditions. As we observe them, they are men of character and ability, and we believe their fellow citizens at home should be grateful to them for the contribution they are making to their country and the cause of peace.

This problem is extremely complex and the task of solving it would surely try the patience of a Job. Basically, it is this: 68 million people in the "new Germany" must eat and live like civilized human beings. They cannot produce nearly enough food to satisfy themselves. Therefore, a substantial number must either leave the country or as a people they must produce for export enough manufactured products, over and above their own needs, to satisfy the bill for the food and raw materials which they must import. If this is not done, in our opinion, communism will sooner or later establish itself in Germany and the rest of Europe as well.

In our limited time in Germany, we certainly have not all the information or all the answers, but we have observed conditions there on the ground and we have also carefully studied Mr. Hoover's report in the light of its application to the problems there, and his recommendations with respect to their solution.

We are in complete and unanimous agreement that his report is a masterful summary of the situation in Germany - its causes and effects, that it should be "must" reading for every American, and that Mr. Hoover's recommendations for action are sound and well founded and should be adopted with as little delay as is conceivably possible.

We can hardly hope to add materially to what has been said in his report, but there are some aspects of the picture, which in the light of developments, including the Moscow Conference, it may conceivably be profitable to amplify and discuss. In this discussion we reach certain conclusions. These conclusions are reached not out of sympathy for Germany and its people but solely because the adequate disposition of this almost unbelievably chaotic situation is distinctly in the interest of the United States and its citizens.

In his report to President Truman, Mr. Hoover, the most renowned food expert in the world, states that adequate food supplies for Germany and Austria is the most important problem facing the people of these countries. We entirely concur with Mr. Hoover and on every hand in Germany and Austria, everyone agrees that this is the number one problem.

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Mr. Hoover, in his report, further states: "The shortage of coal is, next to food, the most serious immediate bottleneck to both living and the revival of exports to pay for food." Scarcity of coal is prevalent all over Western Europe. The unprecedented severity of the past winter has made this situation even more acute. Every means available must be used to increase coal production at once and to solve this, the number two problem.

Transport facilities - rail, water, truck and automobile - suffered terrific damage and destruction during the war, and continuing deterioration, with very little repair and replacement, has taken place since the close of hostilities. Remarkable achievements have been accomplished by both the British and American in establishing all types of transport, but transport could easily become a critical bottleneck during the harvest season or in the event of increased production.

The lack of any stability to the currency seriously holds back any return to normal economy. Unquestionably this situation is restricting production and a normal life for the country. It is highly desirable that as soon as possible currency reform be instituted, but to be successful, production or anticipated production must be in sight to maintain stability once the reform is brought about.

We now set forth several major issues with which the Office of Military Government has to deal, together with our comments and suggestions thereon.

1. Decartelization.

Law 56 and Regulation No. 1 embody a series of controls and regulations, many of which represent economic principles quite new to the German mind and to the past industrial development of the country.

Since we are now confronted with the urgent necessity of bringing about as rapidly as possible recovery of the economic life of a starving people - it is our belief that too strict adherence to the Law in its administration will seriously retard this primary objective.

With no desire to criticize the principle of this law as it has been written - we do, however, recommend, if at all possible, that the enforcement of these regulations be postponed, or at least substantially modified, until the industrial economy is in a reasonable state of operation.

2. Need for Incentives for Industry, Agriculture and Labor.

Regardless of the availability of raw materials, coal, transport, and workers, we have found universally that the lack of incentive has retarded production of both export and domestic goods. Because time is of great importance, we believe that a program of incentives should be inaugurated immediately to achieve the desired goals of production.

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Incentives should be available to both industry and labor, and could include export credits, review of price ceilings for manufacturers, and for labor, ration point bonuses. Simplification of the controls over pricing and contracts, and freedom to travel and communicate freely will facilitate building an export trade.

For agriculture an increased flow of consumer goods will provide an incentive to the distribution of food through normal channels.

3. Exports.

In connection with the drive to produce more exports from the US and UK Zones, it should be recognized that to make this possible, consumer and capital goods must be made available both to the German people and German industry. A good balance is required and too much emphasis should not be placed on exports without adequate provision for supplies to the internal economy.

4. Reparations.

As a result of continued disagreement among the four powers, which makes impossible, for an indeterminate period, the treatment of the New Germany as a single economic unit, the Reparations Program as outlined in the Potsdam Agreement of 1945, has been halted in the US and UK Zones. Under the present agreement to operate the US and UK Zones together, more productive capacity must be retained in these Zones to supply necessary increased exports to make up for the deficiencies caused by the failure to receive food and other imports from the other zones. It is proper that plants designed solely for the production of military equipment and materiel should be, as they are being, destroyed, and their general purpose equipment be made available for reparations, insofar as not required to maintain the US and UK Zones on a satisfactory economic basis.

An important obstruction to the resumption of peacetime industrial production in Germany is the uncertainty caused by failure to complete or conclude the Reparations Program. It is perfectly obvious that no one will proceed with any rehabilitation program or resumption of production unless there is reasonable certainty that the plant will not be taken for reparations. Unless prompt agreement is reached on the Potsdam Declaration, no further removals of plants for reparations should occur, except in the case of plants designed solely for military production; but, in any event, no further removals should be made to Russia until the New Germany is, in fact, treated as an economic whole. Only in this way will it be possible for a stable and satisfactory German economy in the US and UK Zones to be brought about.

Certain industries in Germany, such as those producing anti-friction bearings and aluminum, are to be eliminated and German requirements are to be satisfied by imports, with the facilities being made available for reparations. Other plants in Germany which converted during the war from peacetime production to production of war materiel are also being considered for removal as reparations, as a result of the Level of Industry Plan. These decisions should be carefully reexamined in view of operating the US and UK Zones as an economic unit. Removals of capital equipment by the Russians and French from their own zones, or previously removed from areas later included in US or UK Zones should be credited to reparations account.

5. Denazification.

Among officials of the Military Government there is unanimous support for the principle that those responsible for Nazi crimes and atrocities should suffer punishment. In this all members of our group concur.

At present, after two years, there are still hundreds of thousands of suspects, many of whom are incarcerated, who are awaiting trial. Large numbers are constantly being added through informants, who act for their personal benefit or for revenge.

Our group believes that in the interest of Justice and for the benefit of the German economy, the Denazification Program should be rushed to completion. Many men with excellent business and technical training who are sorely needed to rebuild Germany are unavailable because they have not been tried. Those found guilty should be punished; those innocent should be freed with the least possible delay. These men and all others who are released should be fully exonerated so that in the future there shall not be two classes of German citizens - those who are innocent, and those who are still suspect.

6. War Potential.

We wholeheartedly agree with Mr. Herbert Hoover's concept, "We should free German industry, subject to a Control Commission, which will see that she does no evil in industry just as we see that she does not move into militarism through Armies and Navies". We concur further with his report, "the question here is not level of industry; the real question is whether the Allied Nations will stick to their abolition of militarism itself in Germany; if they do that, there is little danger from war potential in industry".

We believe there should be an entirely new approach to this whole industry problem, that there should be allowed freedom of industrial operation subject to a Control Commission whose sole duty it would be to halt production in any plant or industry, or any scientific research in the event of the activity in question being directed to the making of war materiel.

During the two years of non-operation, many of the plants have seriously deteriorated and therefore it is imperative that decision be made at once to restore all available non-arms plants to production.

And finally, in the light of the results of the Moscow Conference, we refer once more to Mr. Hoover's report of March 18, 1947, and to one of the assumptions on which it was based, which reads as follows:

"First, I assume that we wish to establish a unified federal state in Germany, embracing mainly the present American, British, Russian and French military occupation zones, with economic unity, and free trade between the States. I shall refer to this area as the "New Germany"."

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Since that date the Moscow Conference has been held, and it is now clear that no accomplishment of unification of the four zones seems imminent.

Mr. Hoover's report concluded that in such event, the "Anglo-American Zones should abandon the destruction of plants, the transfer of plants for reparations and the "level of industry" concept, and start every plant, "heavy" as well as "light", which can produce non-arms goods. This will relieve far more rapidly great costs to our taxpayers; it will do infinitely more for Europe than American loans and charity".

We agree with this conclusion and feel that all measures recommended in the Hoover report should be put into effect on a bizonal basis.

In this statement we have not referred specifically to Austria, because the problem there is basically the same as in Germany - the difference being that Austria has a freely elected Central Government which, of course, Germany has not. Here, too, food, fuel, transport, a stable currency, production and exports are the essential requirements. However, Austria is also divided into four zones, and the failure of the Austrian Treaty and inability to bring about treatment of the country as a single economic entity handicaps and retards the recovery here which is so essential. If Communism is to be kept out of Austria, it is essential that relief supplies and raw material credits be made available to the Central Government through the British and American Commands.

*/Sgd/

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*(These names were given to me over the telephone by the War Dept. - JCS)